CONFIDENTIAL (FR)

CURRENT ECONOMIC COMMENT BY DISTRICT

Prepared for the
Federal Open Market Committee
by the Staff

May 12, 1976

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SUMMARY*

This month's District reports suggest that the overall recovery is continuing at about the same rate as during recent months. Sales of consumer goods remain generally strong throughout the country, although there are scattered indications of some moderation of consumer demand. Manufacturing activity appears to be accelerating. Several industrial Districts report further increases in orders and shipments and lengthened delivery schedules. Conditions are particularly tight in the steel industry. Despite the continued improvement of sales and output, most Districts indicate that both retailers and manufacturers are following cautious inventory policies. Reports regarding the outlook for business fixed investment continue to be mixed, but there are signs of increasing strength in this sector in the industrial Midwest and Southeast. Most Districts report further moderate increases in single-family home building but continued weakness in multi-family unit construction. Agricultural conditions are generally favorable, with crop plantings either on or ahead of schedule. Although consumer and farm loans are increasing in several Districts, business loan demand remains stagnant throughout the country.

Consumer spending remains the strongest force sustaining the recovery. The reports of several Districts, including Boston, Richmond, and St. Louis, suggest that consumer demand for big-ticket durable items is now expanding rapidly. Automobile sales are strong throughout the country. New car demand appears to be centered increasingly on large domestic models. Subcompact sales are sagging. Although retail sales remain bouyant overall, there are scattered reports of weakness.

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*Prepared by the Federal Reserve Bank of Richmond.

Philadelphia reports a recent slump in carpet sales. Both Cleveland and Chicago indicate that television sets are moving slowly, and Kansas City reports sluggish sales of durable goods in some areas.

Manufacturing activity appears to be accelerating. Manufacturers surveyed by the Philadelphia and Richmond Banks indicated increases in orders and shipments, and several Districts report lengthened delivery schedules. Increased appliance and automobile production has greatly increased the demand for flat-rolled steel. Cleveland indicates that steel producers in the Fourth District are presently operating at about 90 percent of capacity compared to 70 percent earlier this year. Chicago suggests that steel shortages might arise later in the year if capital goods manufacturers increase their demand for steel. The generally increased demand for industrial goods has contributed to recent increases in the prices of key industrial commodities. Several Districts report that businessmen expect an acceleration of industrial price increases as the year progresses.

Despite the continued recovery of sales, inventory restocking is proceeding cautiously in most areas at both the retail and manufacturing levels. Philadelphia, Richmond, Dallas, and San Francisco indicate that factory inventories have remained flat in recent weeks. Some retailers in the Richmond and Kansas City Districts reported stocks at higher than desired levels.

Although the outlook for business capital spending remains uncertain, several Districts indicate favorable developments. Atlanta reports numerous recent announcements of new plants to be constructed in Alabama and Tennessee. Cleveland reports a sharp upsurge in the demand for heavy-duty trucks, bearings, and machine tools. Chicago suggests a growing belief that margins of unused industrial capacity may have been overestimated. In contrast, however, Boston reports little change in orders for producers' durables.

Comments regarding residential construction follow the pattern of recent months. Construction of single-family housing continues to increase at a moderate pace in most Districts, and the outlook in this sector is generally favorable. Multi-family unit construction remains sluggish, although St. Louis reports improved prospects for multi-family building in the St. Louis metropolitan area.

Most Districts report favorable agricultural prospects. Chicago, St. Louis, and Minneapolis indicate that crop plantings are on or ahead of schedule in their Districts. Kansas City reports that recent rainfall has broken the drought in that area and substantially improved winter wheat crop prospects. Kansas City expects the high prospective level of grain stocks to assist in holding retail food prices to their smallest increase since 1972. Agricultural conditions in the Southeast are less favorable than elsewhere. Atlanta reports that dry and cold weather has damaged cotton crops in some areas.

While consumer and agricultural loan demand has increased in some Districts, no District reports any increase in business loan demand. Philadelphia and St. Louis report that prime business borrowers can obtain money at rates below the announced prime rate. Inflows of funds into thrift institutions have remained strong. Cleveland, Chicago, and St. Louis report that thrifts are seeking to reduce these inflows by reducing rates paid on longer-term savings certificates, and Cleveland indicates that thrifts would like to reduce passbook rates. Mortgage rates have declined to the 8-1/2 - 8-3/4 level in recent weeks in several Districts.

FIRST DISTRICT - BOSTON

The New England Directors report that the recovery is secure, although activity remains depressed in several major industries. Retail sales have continued at the pace set during the last Christmas season, despite a temporary softness in March. On the other hand, activity in producers' goods industries remains depressed, and even though the national data reveal an increase in machine tool orders, the First District reports no such developments. The Directors assess the pace of overall growth as being moderate, and most expect the momentum of recovery to remain unchanged throughout 1976.

A late Easter season and an unusual variance in the weather pattern depressed March retail sales over most of New England. However, April was a very active month for the region's retailers; most are reporting volumes well ahead of their plans. Durable goods are showing the strongest performance at this time. To date, vendor performance is very good--except for an occasional "hot item"--and there is no evidence of consumer goods manufacturers operating anywhere near full capacity. Nevertheless, some signs of increasing wholesale prices are beginning to emerge. Retailers report that inventory control remains a problem, due more to aggressive marketing on the part of wholesalers rather than consumer resistance.

Manufacturers of producers' durables report that orders have changed little in recent months. Some machine tool suppliers state that they have had more requests for quotations, but their order books do not reflect this interest yet. Milling machines which tend to lead the market are only offering a glimmer of improvement.

Oil field equipment sales are improving in foreign markets, especially Algeria and Mexico, while domestic sales are diminishing, particularly for drilling equipment. Turbine sales are improving for utilities, but only military orders are maintaining the aviation markets. Fastener sales are increasing for all industries except housing construction.

Bankers report that conditions have remained unchanged in the last four months. Business loans show no increases, and, although some banks are fairly aggressively seeking new customers, there is no pressure on commercial banks to protect established customer relationships. Interest rates to business have moved with the prime rate, but there have been no major changes in mark-ups or compensating balances. Mortgage interest rates have dropped somewhat in New England; the most common loan rates of surveyed savings banks are 8-3/4 or 9 percent.

Professors Eckstein, Samuelson, Solow, and Tobin were available for comment this month. There was widespread agreement that (a) the recovery is presently progressing satisfactorily, (b) the first-quarter price performance was an aberration that cannot be expected to continue, (c) monetary policy should proceed cautiously, discounting even very large monthly changes in prices and monetary aggregates.

Eckstein has raised his real growth forecast for 1976 to 6.9 percent. He expected the May and June wholesale price figures to be "a horror show" but urged looking at these figures in a 6 to 12 month perspective. He regarded the rapid monetary growth in April as just an averaging out of previous low growth and nothing to get excited about. He felt it is appropriate to let short-term rates drift upward by 20 to 30 basis points each quarter.

Eckstein and Solow both saw signs of a pickup in business fixed investment. Solow cautioned against letting short-term interest rates rise much so early in this recovery. He felt the recent price behavior was an aberration and that long-run targets must be based on an underlying rate of inflation of about 5½ percent. The appropriate posture for monetary policy is "to stand upright, not to lean against the wind."

Recent tightening of Federal Reserve policy, in practice and in goal, neither surprised nor distressed Samuelson. The economy is not now at the stage that it needs additional stimulus. He added that this conclusion is not based on the pickup in monetary growth. On the contrary, he pointed to previous below-target growth and warned against a stampede to offset a temporary overshoot. In a longer-run context, he urged consideration of who pays the incremental political, social, and economic costs of bleeding inflation from the economic system by stagnating production and prolonged periods of unemployment above 6½ percent.

Tobin also mentioned asymmetric behavior in response to monetary growth outside of the target range. He noted that the financial markets were very edgy about the slight upward movement in the Federal funds rate. He recommended holding the rate at its present level to make sure that the investment boom in 1977 that we are counting on will really happen.

SECOND DISTRICT - NEW YORK

The economy continues to recover smartly, according to Second District Directors and other business leaders who were contacted recently. Significant further growth in GNP is expected over the coming year; consumer spending for the most part remains buoyant; residential construction is beginning to recover in the District; and there continue to be expectations of a turnaround in capital goods outlays. Nevertheless, some apprehensions have been voiced about potential future shortages of steel and other metals. Against this background, prices are expected to begin rising more rapidly and forthcoming wage negotiations to result in substantial settlements.

All of the respondents expressing an opinion on the subject felt that a brisk economic recovery would be sustained over the balance of the year. Several noted that the economy had performed better during the first quarter than they had expected. Among others, the chairman of a multinational chemical corporation expected the upswing to continue to gather strength from greater than anticipated consumer demand. A Director associated with the automotive industry reported that, on the basis of recent domestic auto sales, he had raised his expectations for real GNP growth for 1976 from 6 to 7 percent. The president of a large metal producing firm reported that demand for metals was increasing somewhat faster than had been expected earlier.

The latest survey of the Buffalo Purchasing Management Association points to further significant improvement in the demand for locally produced goods, with virtually all respondents reporting a steady or increased flow of new orders, and nearly half reporting an improvement in the volume of new orders, as compared to only 13 percent so reporting a year ago.

As in previous months, consumer spending generally continued to be characterized as strong. The Buffalo Branch Directors reported that retail sales over the Easter shopping period had been "very strong," and good gains were also posted in suburban areas of the New York City region. Some slowing in early May in the rate of growth of department store sales in the Buffalo area as compared to last year was noted, but this was attributed in good part to the spurt in consumer outlays during the comparable period last year under the impact of the tax rebates. In any event, this softening was not apparent in the Rochester area. Moreover, a number of respondents reported the demand for automobiles in upstate New York continuing very strong, with some dealers having depleted inventories of certain models. The retail sales picture in New York City, however, was less favorable. April sales of large city department stores, notwithstanding the later Easter this year, registered a disappointing advance of only 3.3 percent from the year-earlier level--less than the rise in general merchandise prices.

While retail sales and the more recent rebuilding of business inventories continued to provide the main thrust to the recovery, there were further indications that the hitherto lagging capital investment and residential construction sectors might be picking up. A financial economist thus felt that even the 4 percent increase in real business plant and equipment spending in 1976 implied by the latest McGraw-Hill survey was too low. In his view, a rise of nearly 6 percent was probably more appropriate. Several other financial economists reiterated their expectations that capital outlays would pick up as the recovery proceeded. The residential construction picture continues to brighten in most parts of the District, with the notable exception of New York City. An official of a New York State thrift trade association reported that mortgage money was in substantially greater availability than last fall, and that even 90 percent mortgages were now being made in certain suburban areas surrounding New York City and Buffalo. The Buffalo Branch Directors reported that there was clear evidence of an upswing in housing construction in western New York. The improvement has been particularly apparent in prime suburban areas, but has also been evident in the low-to-moderate priced residential sector. Apartment construction remains in the doldrums, however, under the influence of high vacancy rates in some areas.

Regarding the price outlook, the official of the chemical concern mentioned above expected the rate of increase in wholesale prices to approach a 7-8 percent range by year-end, and expressed concern over the prospects of shortages in steel and certain other metals. The latter concern was also expressed by some other respondents. A Director noted the sharp increase in metals prices which he felt might reflect some speculation, but also the fact that in his view profit margins remain very low in most basic commodities. A Director associated with agriculture stated that he was not as optimistic as the Department of Agriculture regarding the 1976 grain harvest and that, in his opinion, higher grain prices are in the offing.

Another Director expressed the view that it appeared unlikely that the underlying rate of inflation could be kept down below 6 percent given the present state of consumer demand, fiscal policies, and of wage pressures. In the latter context, a number of Directors expected fairly strong wage demands from organized labor, with first-year settlements ranging from 8 to 10 percent in union contracts and with non-union wage increases lagging only slightly behind.

THIRD DISTRICT - PHILADELPHIA

Economic activity in the Third District continues to expand. The retail sector shows healthy gains in sales, and manufacturers report increases in new orders and shipments although the increases are less widespread than last month. At the same time, employment and the average workweek in manufacturing show moderate gains while inventories in this sector are unchanged. The longer-term outlook in manufacturing is for additional expansion. Bankers indicate that consumer loans are increasing but business loans are sagging. Businessmen continue to report rising prices, and inflationary pressures are essentially the same as last month.

Manufacturers responding to this month's business outlook survey report additional improvement in business over last month. Of the businessmen surveyed, one-half report a higher level of general business activity--slightly fewer than last month. Specific gains in new orders and shipments are indicated, although the reported increases are not as widespread as they were in April. One-third of the firms in the current survey report increases in new orders and 4 out of 10 indicate higher levels of shipments. Last month, by comparison, more than half of the respondents reported gains in each of these categories. Manufacturing employment is another "plus" this month. The factory workweek is somewhat longer, and work forces are higher at 17 percent of the businesses surveyed. While this gain in employment appears modest, the job picture is brighter than it has been for quite some time. Only 4 percent of the respondents report employment cutbacks since last month and this "net gain" of 13 percentage points is the highest since October 1973. One major area showing no increase is inventories which are basically unchanged from last month.

The outlook in manufacturing for the next two quarters is optimistic with 8 out of 10 respondents projecting expansion. New orders and shipments are expected to be higher by fall and increases in inventories and employment are also projected. Fifty percent of those polled expect to add to their inventories, 45 percent plan to hire additional workers and 30 percent anticipate lengthening the average workweek. In addition, 4 out of 10 respondents plan to hike their spending for plant and equipment--about the same as in the three previous surveys.

On the price front, manufacturers report paying and receiving higher prices this month, but there is no significant change in the distribution of responses from last month. Forty-seven percent of the respondents report paying more for their supplies currently and 19 percent have raised the price tags for their finished products. The outlook is for additional price increases in the next six months. Eighty percent of those surveyed expect to be paying more for their inputs over the period and 70 percent anticipate charging more for the products they sell.

Retail executives continue to report strong sales and the outlook for the rest of this year is optimistic. The majority of retailers report that current sales are more than 10 percent above year-ago levels; this is several percentage points higher than their forecasts for this period. Reports are mixed, however, on the components of total sales volume. One retailer notes that, "apparel carried the day" in the most recent sales period while another labels apparel sales as "slightly disappointing." A carpet manufacturer in the District indicates a noticeable softening in orders from retailers since late February, and merchants in the area confirm this slump although one mentions a slight pickup recently. Area retailers are optimistic about sales prospects over the next several months. One executive looks for a big lift in the summer from bicentennial tourists. Her store has already run several bicentennial-related promotions which boosted floor traffic, and many additional promotions of this type are planned through the summer. There is general agreement among retailers that price increases are "modest" and no recent attempt by suppliers to push through large price hikes is reported.

Area bankers report that total loan volume continues to be soft. Consumer loans are up but business loans continue to sag. Consumer credit card loans are reported to be increasing, and one banker notes a strong promotion of auto loans at his bank. Commercial and industrial loans are falling off with one banker noting a $35 million runoff in the last month. All of the bankers surveyed attribute the weakness in business loans to improved business liquidity but most expect pressure on operating funds to intensify. As one banker put it, "I hear more and more talk that increasing demand will require additions to inventories and this will increase the demand for short-term financing." The consensus among bankers is that loan demand will pick up sometime in the third quarter of this year.

At the same time, short-term interest rates are expected to climb gradually from this point on. There are no reported plans to lower the prime rate. One executive feels it would generate little additional loan volume, but notes that loans at his bank might be made at less-than-prime rates if customers requested such an arrangement. By year-end the prime rate is expected to be in the 7½-8 percent range with Fed funds trading around 6½-7 percent. In general, bankers in the District express satisfaction with the pace of economic recovery. There is little concern at this time about the danger of the economy overheating, and the anticipated rise in interest rates through the end of 1976 is not expected to put a damper on the expansion.

FOURTH DISTRICT - CLEVELAND

Recovery in the Fourth District is broadening. Manufacturers and retailers note continued broadly based strength in consumer goods. Steel operations are improving rapidly, and capital goods orders are picking up from 1975's depressed levels. Sharp recovery in chemicals and plastics, paperboard and containers, and certain types of steel products has been accompanied by tightening supplies and a flurry of price increases. Deposit flows into savings and loans continue to outpace mortgage demand.

Consumer spending continues strong except for small cars. One Director noted continued strong consumer demand for household materials for remodeling, and a banker Director described retail sales and instalment lending as extremely good. Delinquencies are the lowest on record, repayments are strong, and consumers show no reluctance to incur debt. The sharp rise in appliance production in recent months has been an important factor in the recent surge in steel orders. Recovery in consumer goods, however, is not without some weak spots. A major producer of TV tubes reports that while orders have been picking up they are still well below the peak of late 1973. Also, operations at the GMC assembly plant at Lordstown, Ohio remain curtailed because of excessive inventories of Vegas.

The primary metals industry, which has lagged the overall recovery is rebounding strongly. Operating rates in steel, which late last year and early this year hovered around 70 percent, are now at about 90 percent of capacity. The surge in steel demand, however, is confined largely to flat rolled products. Hedge buying against price increases, coupled with strong demand from automotive and applicance producers, ballooned orders this quarter, but some steel sources expect orders next quarter will subside.

One steel producer is allocating orders for some sheet steel because of tight demand and curtailed output stemming from relining of blast furnaces. Delivery time on flat roll products has lengthened from 1 month to 3 or 4 months. Demand for structural steel and plates and other products consumed by capital goods producers remains relatively weak and is not expected to pick up until the fourth quarter. Orders for aluminum also have been rising recently in response to higher demand from automotive and packaging industries. The industry is operating at about 75 percent of capacity, but steady improvement is expected throughout the year.

The capital goods sector is showing signs of a comeback. A variety of producers report a revival in orders from depressed levels in early 1975. Heavy-duty truck orders spurted between the fourth quarter 1975 trough and March 1976, although the March level was 60 percent of the peak in early 1975. Demand for bearings has increased in recent weeks, reversing a declining trend in orders that lasted into the early months of this year. One of the nation's largest producers of machine tools reports orders in the first 4 months of 1976 rose 40 percent from a year earlier and exceeded shipments for the first time in the last 18 months. An economist with a machine tool builder doubts the 13 percent increase in capital spending projected in the McGraw-Hill survey. According to him, time is running out for 1976 delivery. Additionally, the spring survey in recent years has been about 5 to 7 percent above actual spending.

Tightening supply conditions are noted by several nondurable goods producers in the District, especially the paperboard, plastics and chemical products, and glass containers industries. Operations have been boosted to 90 percent of capacity or higher for these industries. Delivery schedules have tightened, but shortages have not yet appeared. According to one source, shortages are not likely to appear in paperboard and glass containers until capacity reaches about 95 percent. Demand for plastics has boosted operations in recent months close to the pre-recession peak. A petrochemical producer reports that some of the industry's capacity has been lost because of environmental restrictions.

A flurry of price increases has accompanied strengthening in markets. Prices for flat roll steel products will rise in June and apparently some bar mill products are likely to increase, according to one steel economist. Industry sources justify price increases because of the high cost of additional capacity. A major bearings producer announces a large price increase effective May, and aluminum ingot prices are scheduled to rise about 6 percent early in June. Several nondurable goods firms also report actual or anticipated price increases for their products in order to finance additional capacity. A plastics producer expects a 10 percent increase in polypropylene this fall to support its new plant that will double capacity by late 1977. Another source speculates that paperboard prices are likely to rise in the third quarter.

Effects of the rubber industry strike, according to an economist with a major tire producer, may be less widespread than generally reported. He said 35 to 40 percent of the industry is still affected by the strike. He expects that the auto industry will attempt to adjust for the strike by eliminating spare tires in new trucks and cars, accepting tires that were previously considered blemished, upgrading tire quality, and increasing imports wherever possible.

Savings and loans generally report deposit inflows are stronger than loan demand. At least two large associations no longer offer savings certificates yielding 7½ and 7-3/4 percent, and two others have extended maturities on 7-3/4 percent certificates to 8 years. One large association lengthened the maturity on 4 and 6 year certificates to 10 years. As a result, net savings deposits have declined since mid-April. Loans for multi-family housing remain weak, and mortgage rates have eased to around 8½ percent for a 70 percent loan although one association with a variable rate mortgage lowered its rates to 8¼ percent. There is no indication of any reduction in the passbook rate, although financial officers of several associations are eager for such action.

FIFTH DISTRICT - RICHMOND

Our May survey of Fifth District business conditions shows April to have been another month of widespread upward movement in the level of business activity. Manufacturers surveyed report increased shipments and new orders and larger backlogs of orders in April. Manufacturers' inventories showed little change as more than one-fourth of the respondents continue to view current levels as excessive. Employment continues to increase across the District as indicated by our survey as well as by reports on employment and unemployment in the individual states. District retailers have apparently experienced a dramatic turnaround in their business. Most firms reported increased sales and several characterized the increases as substantial. Sales of big ticket items continued their relative improvement despite the large increase in total sales. The latest available information reveals no significant recovery in business loan applications at District banks. Low credit line utilization, generally below 30 percent, noted by several banks illustrates the extent of weakness in short-term business lending. With April's dry weather and below-freezing temperatures, small grains, spring-planted crops, and fruit were damaged in wide areas of the District. Replanting of some spring crops has been necessary.

Of the manufacturers responding to our May survey, over 40 percent reported increased shipments in April, while nearly one-half experienced a larger volume of new orders than in March. Backlogs of orders apparently increased somewhat, although fewer respondents reported such increases this month than did so one month ago. Inventories showed little change, a slight increase in stocks of materials being balanced by a small reduction in finished goods. Over one-half of the manufacturers now view current inventory levels as about right, but those feeling current stocks are excessive continued to outnumber those viewing them as inadequate by almost two to one.

Gains in shipments and new orders are evident in such industries as textiles, apparel, primary metals, and furniture. While the situation appears to have stabilized in some other industries, including chemicals, responses do not yet suggest any significant improvement. Non-electrical machinery and equipment seems to have leveled off somewhat after some improvement in March, but the electrical equipment group did show some improvement after lagging in recent months.

Nearly one-third of the manufacturers surveyed report expanded employment and longer workweeks in April. Prices also continued to rise during the survey period. Survey responses reveal dwindling dissatisfaction with current plant and equipment capacity. Over three-fourths of the respondents feel current capacity is about right. There remains virtually no sentiment for altering current expansion plans. A substantial majority of the manufacturers surveyed, however, expect continued improvement in the general level of business activity, nationally, locally, and in their respective firms, over the next six months.

The responses of retailers surveyed suggest substantial improvement in business over the past month. Several respondents specifically mentioned the size of the month to month increase in sales calling it the "best ever" or the "best in twenty years." One large chain store responded that "everything is selling." Sales of big ticket items relative to total sales continued to increase despite the sizeable gains in total sales. Seventy-five percent of our retail respondents also reported increases in inventories in April. Meanwhile, twenty-five percent of the respondents once again view current inventory levels as excessive. Over one-third, however, feel the current number and size of outlets is now inadequate.

Employment by retailers rose in April as did employee compensation. Over one-half of the respondents feel that level of sales in their firms will continue to improve over the next six months. The others are apparently satisfied with the current level and feel that while it can be sustained, any further improvements are not likely. In general, the retailers, like the manufacturers, expect the general level of business activity to continue to improve.

Of the District banks surveyed in late April none has experienced any significant recovery in business loan applications, either short-term or long-term. Weakness in short-term financing, however, is especially evident in the larger national accounts. The outlook for improvement in business loan demand is uncertain. Most banks are "hopeful" of a turnaround in 3-6 months, and recovery is expected first in the short-term area.

Earnings from farm marketings during the first two months of 1976 ran slightly below a year ago in the District, compared with a gain of about 10 percent nationally. Farmland values rose further during the period March 1975 to February 1976. Unlike the national advance which was about the same as in the previous year, the increase among District states was slower than recent year-to-year gains in Virginia and the Carolinas but the highest on record in Maryland and the second highest in West Virginia.

Reacting to market conditions, District farmers now intend to plant more cotton, corn and other feed grains, but fewer soybeans, than they planned in January. Compared with a year ago, April 1 intentions indicated sizeable increases in plantings of corn and cotton but significant cuts in soybean and flue-cured tobacco acreage.

SIXTH DISTRICT - ATLANTA

Economic activity in the Southeast advanced again in April. Capital investment plans advanced strongly in parts of the District. Tourist trade and sales of larger automobiles again reflected the vigor of consumer spending. A survey of Georgia purchasing agents revealed an accelerating pace of business, tighter supplies of raw materials, inventory building, and increasing costs. Shortages have appeared in some types of goods, and price increases have become more noticeable. In agriculture, gains in planting due to dry conditions were offset by cold weather damage. Decreases in rice acreage have resulted from low prices and oversupplies, while cattle prices have risen.

Capital investment is on the increase in the Southeast. In Tennessee, Directors are optimistic about industrial development, on the basis of numerous plant announcements during the first quarter of 1976. Alabama accounts for the great majority of recently announced capital investment projects in the region, including a $3.75-billion uranium enrichment facility, as well as two large pulp and paper projects totaling $500 million. In Louisiana, a $200-million electrical utility plant investment has been postponed because the company's projections indicated inability to finance the cost of the project. A sharp upturn has occurred in inquiries concerning industrial location in the central Florida area, indicating a potential for renewed growth in the state which has suffered most severely from declines in construction activity.

Strong tourist trade continues in the Southeast. In Florida, Cypress Gardens reports record attendance for the quarter ending April 30, the sixth consecutive quarter in which attendance set a record. Tennessee Directors indicate continuing growth in attendance at Opryland in Nashville as well as strong gains in attendance at the Great Smoky Mountains National Park. Tourism is also booming in the Gulf Coast area of Mississippi. The size of groups sent to conventions is rising after falling noticeably during the recession. Another trend is the combination of business and vacation travel.

A vignette reported by a Director from Louisiana epitomizes the condition of the automobile market in the Southeast. The local Volkswagen dealership has closed, while the Cadillac dealer expects demand to exceed the supply of cars available.

A survey of purchasing agents in Georgia reveals continued strengthening and tightening in the region's economy. The proportion reporting larger inventories of both raw materials and finished goods has risen sharply over the last three months. Sales and production increases have become the rule rather than the exception over the same period. After some acceleration in March, April data show a renewed slowing of average delivery times. Price rises are reported by 80 percent of the sample, up from 70 percent in the two previous months.

Few shortages are reported, although several areas are potentially troublesome. Certain kinds of home furnishings are in tight supply because previous suppliers are out of business. The same tendency is noted for lumber mills. Retailers are concerned about possible fabric shortages and are considering inventory building, although they are currently keeping stocks in line. Fabric manufacturers are producing only for orders, and their delivery lead times are lengthening except for polyester knit yarn.

Price increases are beginning for several types of merchandise, including children's apparel and upholstered furniture. A department store expects prices on its fall lines to rise by 6 percent. A clothing manufacturer expects the overhang of polyester fibers to depress prices further but sees energy and labor cost increases raising garment prices slightly. An electronics manufacturer expects lower materials prices due to technological changes to offset higher labor costs, resulting in level or declining prices.

In southeastern agricultural industries, low rainfall in April has advanced planting ahead of schedule, but dry and cold conditions have retarded seed germination and plant development. Replanting of substantial portions of the cotton crop is necessary in Tennessee and Mississippi. Shortages of quality planting seed in some areas, as well as the lateness of the replanted crop, may retard yields. Weak export demand for rice has caused huge stock accumulations. Prices have fallen nearly 50 percent from the year-ago level, and growers are reducing planted acreages. Price increases for beef cattle have brightened prospects for a long-awaited return to profits for feeder calf producers. This development should arrest the liquidation of cattle herds and, thereby, remove the depressing effect of herd reduction on beef prices. Loans at banks in agricultural areas have increased an average of 9 percent above year-ago levels.

SEVENTH DISTRICT - CHICAGO

Business expectations continue to improve in the Seventh District. The greatest immediate concern is the unresolved rubber strike, which could drastically curtail motor vehicle output if it continues through the current month. Looking ahead, business and financial executives anticipate the reappearance of shortages on a widening scale as the upswing continues, and an acceleration of price inflation. The capital goods picture is somewhat brighter. Retail sales are excellent on a broad front. Single-family home construction activity has increased sharply, but other construction lags. Some S&Ls are attempting to dampen the rapid inflow of deposits. Demand for business loans at banks remains soft. Farmland prices have increased very rapidly. Crop plantings are on schedule, or ahead.

The rubber strike that started April 21 was expected to cause serious trouble after about 30 days. Some cars and trucks already are being shipped without spare tires to extend supplies. The tire supply situation varies by model and is much worse for trucks than for autos, but all vehicle producers would be affected if the strike continues into June.

New orders have improved in most manufacturing industries. Order backlogs either are rising or are declining less rapidly. More firms are planning to strengthen inventory positions and various capital expenditure programs are being reevaluated in the light of the more favorable outlook. The fact that many executives remained skeptical of the durability of the upturn until fairly recently means that decisions are only now being taken that will promote further expansion. Partly for this reason, fears are growing that margins of unused capacity have been overestimated, as in 1972.

Order lead times are lengthening gradually, and more companies complain about a deterioration in "dependability." Supplies of some items are already inadequate, including various models of appliances, cars, trucks, and motor homes. In the latter case, output is limited by availability of components with no improvement likely. Steel is expected to be in short supply in the fourth quarter.

Labor costs in many industries will rise 8 to 10 percent this year and there are doubts that the improvement in worker productivity will be sustained. Costs of materials, including steel and major nonferrous metals have increased recently, and are expected to rise further. Costs of insurance are soaring--auto, homeowner, and medical policies by 20 percent or more this year. An oil executive says refinery construction costs have doubled in the past three years, and may double again in another five years. The rise in housing construction costs has been cut in half, to about 5 percent, but may accelerate again.

Output of heavy trucks, highway trailers, and related components has increased rapidly in the past two months. This uptrend is based not on actual sales, which remain very slow, but on expectations of increased sales, which one expert believes are about to "explode" as highway truck tonnage approaches capacity. This observer projects heavy truck sales at a new high for 1977.

Sales of light construction equipment associated with home building have increased, but demand for heavy construction and earth-moving equipment has remained at a low level all year. One very large company is using this opportunity to build finished goods inventories in anticipation of an eventual uptrend in sales.

Orders for machine tools and sales of used machine tools have increased significantly, but order backlogs continue to decline, although at a slower pace. Sales of lift trucks and office furniture have improved. Demand for farm equipment is excellent. Oil exploration activity is slipping somewhat. Electric utilities are moving ahead more vigorously on new generating facilities as demand increases at a more normal pace.

A major Chicago-area steel company with a strong market position says its new orders have exceeded capacity since January 1 and that output has been at capacity since early February. Promised delivery times have doubled since year-end. Many users apparently are building steel inventories again. A pickup in demand from the producer goods industries could mean general shortages of steel late this year. Foreign producers are not pushing sales here as much as in the past.

Retail sales for March and April probably should be considered together because of seasonal adjustment problems. Merchants are generally very pleased. Credit sales have increased relatively and collections are favorable. Except for subcompacts, car sales have been very strong. Motor homes and other "RVS" are booming again and some observers expect a new high for 1976. RV sales currently are limited by supplies. Except for freezers, all major appliances are showing large gains from last year. Sales of TV sets remain slow but an uptrend is expected in the fall. Japanese interests have acquired another U.S. TV producer, and the market is very competitive.

Permits for single-family homes were double last year's level in March in major centers, and this uptrend apparently has continued. Apartment permits are up somewhat, but remain far below earlier years. Some S&Ls are limiting the extremely rapid inflows of deposits by restricting the size of passbook accounts and CDs. Typical home loan rates have moved down to the 8.5 to 8.75 percent range, and further easing of credit is expected to be reflected in reduced down payments. The Illinois usury rate will revert to 8 percent at year end. This could cause problems if an extension is not voted several months before the deadline.

Reports of 7th District bankers in our most recent land value survey indicate that prices of good farmland rose about 7 percent on average in the first quarter, to a level 27 percent above year-ago. Reports were strongest from Illinois, but all sections of the District showed gains.

Crop plantings are well along in the cornbelt. The picture in Iowa is about normal, while plantings in Illinois and Indiana range from normal to ahead of normal.

EIGHTH DISTRICT - ST. LOUIS

Reports from Eighth District businessmen indicate that economic activity in the District is continuing on an upward course. Retailers report sales gains for most items, and manufacturing firms report gains in orders and generally improved profits. Home building continues to expand, largely in the single-family type structures. Financial institutions report rising deposits and an increasing proportion of assets allocated to short-term liquid investments. In the agricultural sector, the planting of 1976 crops is well underway and substantially ahead of normal for this time of year.

Consumer spending continues to grow at about the same rate as in the past several months. Department store representatives again report rising sales of wearing apparel items and big-ticket items, such as appliances and automobile parts. Department stores are experiencing improvement in their collection of outstanding accounts. Automobile sales also made further gains in recent weeks.

The manufacturing sector, after making strong gains in the first quarter of this year, has apparently maintained this upward momentum in recent weeks. One apparel maker which experienced only a mild setback in the recession period reports a complete recovery from the setback. Another clothing manufacturer which suffered sharp losses during the recession has experienced a 25 percent increase in fall bookings over a year earlier. A representative of the paper and boxboard industry which noted some sluggishness in sales last month, reports sales improvement in recent weeks. An appliance manufacturer reports continued improvement in sales and considers the outlook for future sales very good. Overall, the chemical industry is experiencing increases in demand for most types of products. Among chemicals showing strength are industrial chemicals, plastics for automotive use, and most textile fibers. A sluggish demand, however, was reported for chemicals used for manufacturing rubber and polyester fibers. A major aircraft manufacturer has experienced some recent pickup in demand for commercial aircraft in addition to increased demand for defense-oriented aircraft.

Home construction continues on the upswing in most of the District, although some slowdown in home sales was noted in St. Louis in the past three weeks. Housing permits issued in the first quarter of this year in St. Louis County were at their highest level for this quarter since 1966. Housing industry representatives expect the St. Louis area housing recovery to continue at least through the next twelve months. Although the upturn so far has been primarily in construction of single-family houses, prospects for increasing activity in the multi-family units appear to be improving. Home construction in Memphis, which has also experienced a strong upturn in single-family units, is currently working out of the excess of multi-family units built in the previous boom period. A number of such units previously started are now being completed. Although the outlook for the homebuilding industry remains good for the rest of 1976, some observers have expressed concern about the impact of rising home prices on future sales.

Credit demand in the District has apparently strengthened in recent weeks. Both banks and savings and loan associations report increases in loans outstanding. Business loan demand at commercial banks, however, is still sluggish, and reports continue to indicate that interest rates charged to many prime business customers are actually somewhat below the reported prime loan rate. Savings and loan associations report further increases in loan demand, reflecting the strengthening housing sector. Mortgage rates, however, have generally declined about 1/4 of 1 percentage point in the past month reflecting the highly liquid condition of these firms.

Commercial banks and savings and loan associations have realized large increases in time and savings deposits in recent weeks. Banks report increases in time deposits of all types, including large certificates of deposit. Savings and loan associations in the St. Louis area report further large gains in savings deposits for April, after registering the largest quarterly increase on record in the first quarter of the year. They are concerned, however, about the current reduction in profit margins as mortgage rates continue to fall and rates paid on deposits generally remain at the maximum permitted by the ceilings. A few associations are beginning to reduce the cost of funds purchased by either not offering certain types of certificates or reducing the yields.

Farming operations are substantially ahead of schedule over most of the District. Recent rain and cold weather, however, have presented some problems. Some replantings of field crops were necessary, and the late season frost has damaged some crops, especially apples and peaches. So far it is too early to determine whether substantial damage was inflicted on field crops.

NINTH DISTRICT - MINNEAPOLIS

Ninth District Directors feel that the current economic recovery is proceeding at a healthy pace. Inventories are expanding at a moderate rate. Lead times for filling orders are lengthening and some input prices are increasing, but no firms are currently experiencing problems in obtaining supplies. Consumer spending appears strong throughout the District. Farmwork is progressing several days ahead of normal; topsoil moisture conditions vary widely over the District.

Business inventories in the District are currently expanding, but firms continue to exercise tight control over stocks, and most Directors anticipate no sharp buildup in inventories in the immediate future. A Director from a large manufacturing concern in the Twin Cities says that his firm will be cautious in building inventories in coming months, and he expects the firm's inventories to increase only moderately by the end of 1976. The same Director feels that inventories are increasing in firms which supply goods to the residential construction industry; but he says that in capital goods industries neither shipments nor inventories appear to have picked up. Despite "faint rumblings of an upturn in capital spending," he foresees no sharp advance before 1977.

A Director from the banking industry agrees that so far there has been "no aggressive buildup" of inventories and adds that firms are feeling no pressure to stock up in advance since orders are currently being filled quickly. An executive from an agribusiness firm thinks that inventory increases will be held in check, feels that current inventory-to-sales ratios are satisfactory, and says that firms may be able to operate with smaller inventories than in the past because of improved inventory control techniques. A Director from a rural North Dakota bank says that inventories in his area never fell far during the recession and says that firms are now increasing stocks.

Directors say that firms in the Ninth District are currently having no problems in obtaining supplies, though lead times are increasing. One Director says that the lead times for steel and brass products have now increased from about four weeks to six weeks, but he viewed this as a return to a more normal lead time. Severe supply bottlenecks are not likely in 1976, according to the Directors. But some Directors feel that rising demand for steel, plastics, and paper products may push those industries to capacity limits in 1977.

Directors say that prices of primary inputs have increased in recent weeks. One Director reports that a freezer manufacturer in his area has recently experienced a "slightly more rapid" rate of increase in raw materials prices and may consequently raise its own prices by the year's end. Another Director says that the price increases for steel, aluminum, copper, and paper products in the last sixty days have ranged from about 5 to 15 percent; he expects prices of energy and plastics to increase faster than the general rate of inflation in coming months. A third Director said that prices of steel castings and ball bearings have increased sharply; a Minneapolis Director expressed concern over rising labor costs; but a Montana Director says that many farm input prices are now lower than a year ago.

Directors agree that consumer spending is strong, and they see no slowdown in the immediate future. At the same time, they stress that the pace of consumer spending has not been immoderate. For instance, one Director from a major upper midwest bank sees no consumer spending spree and thinks that an "explosion" in consumer debt in coming months is unlikely.

Spending is strong in rural areas, as has been true throughout the recession. Recently, sales and employment gains have been especially brisk in the Billings area, where an expanding coal industry is bolstering the local economy. Mining and drilling activity is also boosting the economies of localities in North Dakota.

In the farm sector, fieldwork is several days ahead of normal. Planting has made rapid progress in nearly all areas of Minnesota; small grain seeding is nearly complete in some areas of the Red River Valley, and corn in southern and western Minnesota is one-fourth planted. Sugar beet planting in North Dakota is three-fourths completed. Winter wheat conditions in Montana are good to excellent.

Topsoil moisture is adequate over large parts of the District, though local moisture conditions vary greatly. Moisture is excessive in some parts of North Dakota, but is short across parts of Minnesota and South Dakota. Moisture is adequate in all parts of Montana, and one Director says that range conditions in that state are "tremendous."

TENTH DISTRICT - KANSAS CITY

The buoyant nationwide auto sales picture is mirrored in reports by Tenth District auto dealers, with larger domestic and specialty cars selling very well, while softness is evident in the subcompact area. District retailers contacted were somewhat restrained in their optimism over current and prospective sales, but were, for the most part, quite positive in their assessment of the sales picture. Widespread rainfall across the Tenth District during the past 3 weeks has broken the drought and substantially improved winter wheat crop prospects. With larger grain supplies serving to encourage continued increases in livestock production, food price increases may prove to be the smallest since 1972. Tenth District bankers contacted reported a slightly greater than seasonal increase in total loans last month, but total deposits were reported to be down during April, owing to a large decline in demand deposits.

Reports from a number of Tenth District retailers indicate a continued improvement in retail sales, and prospects, at least through the summer, were rated as good. However, the nature of the sales gains varied from place to place both in terms of composition and strength. Oklahoma City reported overall strong suburban sales, but with weakness in the durables goods sector. Denver, with a healthy resurgence in home construction, reported good retail sales, particularly for large appliances, furniture, carpeting and home improvement materials. In both Omaha and the Kansas City areas, strength in furniture sales was reported, but overall sales results in these areas varied with generally more strength evident in the Kansas City metropolitan area. None of the District respondents reported any real difficulty in getting merchandise, while a number of them indicated that their stocks were somewhat above desired levels.

The auto sales picture in the Tenth District is very much like that nationally. Larger domestic cars and specialty cars are selling very well and inventory levels of these models are well below what dealers consider either normal or desirable. In addition, intermediates and vans are reported to be selling well and some inventory problems in the intermediates are beginning to show or are anticipated. Subcompact sales are weak and inventories of these models are excessively high. In the import sector, sales reports are mixed, and sales gains lag behind those of domestic models. Nonetheless, auto dealers generally express optimism over the sales picture for the remainder of the year.

Widespread rainfall across the District during the past 3 weeks has broken the drought and substantially improved winter wheat crop prospects. The most recent crop report estimated that winter wheat production would be 1.46 billion bushels this year. The estimate for Kansas--the leading wheat state--was increased 16 million bushels from the report a month ago to 302.4 million bushels. Last year, production in Kansas was 350 million bushels.

The prospects for larger grain supplies--reflecting a buildup in carry-over stocks and continued high production levels--should encourage increases in livestock production and help hold food prices to the smallest annual increase since 1972. Total supplies for both feed grains and wheat in 1976-77 will likely surpass year-ago levels. Furthermore, pork output promises to be larger during the second half of 1976, and beef supplies will likely continue high, given the renewed interest in feeding programs. The number of cattle and calves on feed in the 23 major states April 1 was 28 percent above last year's level; however, numbers were still 12 percent below 1974. The District inventory was 30 percent greater than a year ago. Although fed cattle marketings will likely post substantial year-to-year increases for the remainder of 1976, sharp declines in nonfed slaughter should add support to fed cattle prices this spring and summer.

Tenth District bankers contacted during the monthly survey reported a slightly greater than seasonal increase in total loans during April. Real estate loans, loans for securities, and agricultural loans were the major contributors to that improvement. Bankers also reported a moderately improved demand for consumer loans. Auto loans, consumer credit card loans, and home improvement loans generally were said to be increasing. In the Kansas City metropolitan area, bankers contacted reported that most banks were offering automobile loans with maturities up to 42 to 48 months. Business loan demand generally was reported to be weak. Nonetheless, most bankers contacted thought the prime rate would rise modestly during the rest of the year.

Total deposits were reported to be down during April. Demand deposits showed a large decline, while time and savings deposits showed an increase. All bankers contacted in the survey indicated they were offering the new business savings accounts. Reports on the volume of these accounts varied from very good to a leveling off after an initial increase.

ELEVENTH DISTRICT - DALLAS

Eleventh District city bankers report loan demand is weaker than expected. They blame this on an effort by businesses to repay loans, a decline in drilling activity, and generally weaker consumer borrowing. District agricultural loans, however, show some strength.

Total loans at large commercial banks rose sharply in January. Since then, however, borrowers have been repaying their bank indebtedness. This has reduced the volume of loans outstanding to December's level. In particular, petroleum refiners have made substantial repayment of loans after two years of unusually heavy borrowing.

Recently, loans to the petroleum industry have decreased. Houston bankers report that a decline in drilling and a continuing slump in oil production have resulted in fewer loans to finance drilling equipment, oil tools, pipe, and other equipment related to energy production. And bankers cite rumors of an oversupply of drilling pipe and aggressive price discounting by sellers as evidence that weakness in drilling is likely to persist.

Spokesmen for drilling supply firms differ in their outlook for drilling activity this year. Some believe drilling will be up slightly from last year because of higher industry drilling budgets. Others feel drilling will fall below last year's level, due in part to legislative uncertainties and the rollback of new oil prices. But they also feel that a lot of the drilling has been to further develop the flow from existing discoveries, and producers have completed most of this kind of work. Finally, a gas producer reports that a slight surplus of gas on the intrastate market is discouraging deep gas exploration in west Texas.

Oil field pipe suppliers confirm bankers' fears that their customers built inventories while pipe was still in relatively short supply and drilling was strong. Now that drilling is off, these firms seem anxious to reduce inventories.

Other business loan demand is also weak. Because businesses are experiencing slow growth in demand and face no immediate threat of strong price increases, they are hesitant to build inventories. In addition, one banker reported that a few large customers have been utilizing the commercial paper market quite heavily. And other customers are making greater use of internal funds generated by higher profits. Many bankers feel that the growth in profits could continue to depress loans unless the demand for inventories picks up considerably.

The demand for consumer instalment loans at large banks in the District is especially weak. Consumers have made net reductions in their bank debt for three consecutive months, and bankers indicate renewed caution by consumers despite more aggressive marketing of these loans. Loan officers at small banks, however, have noted some pickup in automobile loans and in the use of credit cards.

Largely because of higher production expenses and narrow profit margins, demand for farm and ranch credit is strong according to a survey of 230 agribankers in the Eleventh District. A number of factors have added to production costs. Natural gas prices have skyrocketed, pushing irrigation costs substantially higher. And higher prices for farm machinery have increased equipment loans. With more cattle on feed than a year ago, loans for feeding cattle have also increased.

Ample loanable funds are available at rural banks to meet the increased demand. Bankers are, however, cautiously evaluating agricultural loans; 32 percent indicate they have increased collateral requirements. The proportion of agribankers indicating more renewals and extensions than usual has decreased from 47 percent in July 1975 to 27 percent in early April, evidence that repayment of loans has improved. Higher livestock prices have made possible increasing repayment of loans in Texas; but in Louisiana, Oklahoma, and New Mexico repayments are sluggish because crop sales have decreased substantially from a year earlier. With the price received for rice depressed far below last year, the financial condition of rice growers has deteriorated. And poor harvests for two successive years have left many farmers in northern Louisiana financially weakened.

TWELFTH DISTRICT - SAN FRANCISCO

Our Directors report a continued expansion of the economy led by strong consumer spending. Retail sales and new car purchases are good in most areas of the District and consumer credit demand has increased. Another strong sector is agriculture where prices have been steady and an optimistic outlook prevails. Construction shows great variation from region to region and overall its recovery has been slow. A major concern is the high wage and fringe benefits sought by unions in current negotiations. Bankers report high savings rates and strong loan demand by consumers but a relatively weak demand for commercial and industrial loans.

Consumer spending is the strongest force in the economy. Our Directors report generally good retail sales throughout the District. Increases of 20 to 30 percent in sales over a year ago were reported in some areas and this strength is expected to be maintained. Automobile sales, especially for domestic cars, are also very good. In Oregon, for example, one domestic company experienced a 48 percent increase in sales during April over a year ago. A shortage of inventory exists for the larger models. Consumers are increasing their indebtedness and consumer lending is up strongly at most banks. At a large Washington bank, instalment loan totals for the first quarter of 1976 were up approximately 25 percent over the previous year. Auto loan increases were even higher for this same Washington bank, and other banks report similar increases.

The agricultural outlook is good. Prices have been reasonably steady with only limited declines in prices expected. Cattle prices are up and an excellent year is predicted for such crops as cotton, rice, potatoes, and fruits. However, there remains some uncertainty about the impact of government intervention on farm exports which could depress certain prices of certain crops such as wheat.

Heavy construction remains weak and architectural firms are continuing to cut back on staff. Unemployment in the construction trades remains high. Residential construction shows great regional variation. It is described as being at "all-time high levels" in the Bakersfield area, and sales of new homes are being made at record prices in Orange County in Southern California. Prices of existing homes are continuing to climb. These strong local markets are an exception and the modest recovery in demand by the housing industry is reflected in slow growth of orders experienced by lumber and plywood producers.

Inflation continues to worry some Directors, primarily because of the wage increases being demanded by unions in current contract negotiations. A large paper products manufacturer foresees a "very expansive settlement", possibly 14 to 15 percent plus benefits. The effect of fringe benefit improvement could be very costly especially when the funded liability for greater pensions is considered. On the other hand, another Director reported that inflation is not likely to be important in the food industry. Retail price wars occurring in some areas reflected recent declines in food prices, but neither substantial increases nor decreases are expected during the rest of this year.

Inventory accumulation does not appear to be a major source of demand in this District. Finished inventory at a precision electronic instruments company is unchanged since last August and other manufacturers do not appear to be increasing inventories. In fact, some indicate that they are continuing policies aimed at reducing inventories. Bankers have experienced little increase in loan demand to finance higher inventories.

Directors noted some problems connected with environmental issues. The recent abandonment of a large coal power plant in Kaiparowits in southern Utah removed an important source of potential economic stimulus for that region. Environmental regulations are also described as causing delays in coal mining projects in Utah and construction projects in Southern California. One Director noted the conflict in the proposal for a large nuclear plant situated in prime agricultural land in the San Joaquin Valley in California rather than on the coastline. In his view, agricultural land is as desirable a goal as preserving the coastline of California.

Banks continue to gain deposits. Savings at a large state-wide California bank were up 25 to 30 percent over the last 12 months. Demand for loans is strongest for consumer credit but it is quite variable in the case of commercial and industrial loans. Although individual small banks report good demand, the larger banks see little evidence that the confidence level of business matches that of consumers. Commercial loans remain weak; the loan demand is not there.